

DIRECT TESTIMONY

of

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Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Northern Illinois Gas Company

d/b/a Nicor Gas Company

Proposed General Increase in Gas Rates

Docket No. 08-0363

August 27, 2008

OFFICIAL FILE

I.C.C. DOCKET NO. 08-0363

Staff Exhibit No. 3.0

Witness

Date 11/19/08 Reporter T6

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1 Witness Identification

2 Q. Please state your name and business address.

3

4 A. My name is Burma C. Jones. My business address is 527 East Capitol
5 Avenue, Springfield, Illinois 62701.

6 Q. By whom are you employed and in what capacity?

7

8 A. I am currently employed as an Accountant in the Accounting Department
9 of the Financial Analysis Division of the Illinois Commerce Commission
10 ("Commission").

11 Q. Please describe your professional background and affiliations.

12

13 A. I am a licensed Certified Public Accountant with a Bachelor of Arts in
14 Accountancy from Sangamon State University, which is now known as the
15 University of Illinois at Springfield. I joined the Staff of the Illinois
16 Commerce Commission ("Staff") in October 1999. My prior accounting
17 experience includes five years as the Assistant Controller for a mid-size
18 retail business and two and one-half years on the accounting staff of the
19 Illinois Office of the Comptroller.

20 Q. Have you previously testified before any regulatory bodies?

21

22 A. Yes, I have testified on several occasions before the Commission.

23 Q. What is the purpose of your testimony in this proceeding?

24

25 A. I have reviewed and analyzed Northern Illinois Gas Company's ("Nicor
26 Gas" or "Company") filing, and the underlying data. The purpose of my
27 testimony is to propose adjustments to 1) rate case expense, 2) charitable
28 contributions, 3) office supplies and expenses, 4) memberships and dues,
29 and 5) environmental costs. In addition, I am recommending changes and
30 improvements to Rider VBA and Rider EEP in the event they are adopted
31 by the Commission.

32 Schedule Identification

33 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 3.0?

34

35 A. Yes, I prepared the following schedules for the Company, which show
36 data as of, or for the test year ended, December 31, 2009:

ADJUSTMENT SCHEDULES

Schedule 3.01 – Adjustment to Rate Case Expense

Schedule 3.02 – Adjustment to Charitable Contributions

Schedule 3.03 – Adjustment to Office Supplies and Expenses

Schedule 3.04 – Adjustment to Memberships and Dues

Schedule 3.05 – Adjustment to Environmental Costs

Rate Case Expense

Q. Please describe Schedule 3.01, Adjustment to Rate Case Expense.

A. Schedule 3.01 presents my proposed adjustment to rate case expense to correct the amount of unamortized rate case expense from the prior rate case and to change the amortization period for rate case expense from three years to four years.

Q. Please explain your adjustment to correct the amount of unamortized rate case expense from the prior rate case, Docket No. 04-0779.

A. My adjustment reduces the amount of unamortized rate case expense from the prior rate case by the amount that will be amortized in January, February, and March 2009. The amortization of rate case expense from

56 Docket No. 04-0779 is a component of the tariffs currently in effect. To
57 allow future amortization of the unamortized balance at December 31,
58 2008, as the Company has proposed, would be to ignore the expense
59 recovered between that time and when new tariffs take effect.

60

61 Based on the schedule set in the instant proceeding, the Order in this
62 docket will not be entered until March 2009; thus, the earliest that new
63 rates could be expected to take effect is approximately April 1, 2009. By
64 then the Company will have recovered an additional three months of prior
65 rate case expense. My proposed adjustment decreases the unamortized
66 balance by that additional three months of amortization that will have been
67 recovered through existing rates, and amortizes the remaining balance
68 over my proposed amortization period for rate case expense for the
69 instant case.

70 Q. Please explain your adjustment to change the amortization period for rate
71 case expense from three years to four years.

72

73 A. Nicor Gas chose a three-year amortization period for rate case expense
74 because the time period between the previous rate case filing and the

75 current filing was approximately three years.¹ Based on the following
76 language in proposed Rider 28, Volume Balancing Adjustment ("Rider
77 VBA"), it appears that it will be at least four years before the Company
78 files its next rate case.

79 This rider shall operate on a pilot basis for a four-year period
80 pursuant to the Commission's order in Docket No. 08-XXXX.
81 The initial adjustments determined under this rider shall be filed
82 with the Commission by April 20, 2013, unless the rider is
83 implemented on a permanent basis upon the Commission's
84 approval in a general rate proceeding.²

85 Similar language regarding a four-year pilot period is also proposed in
86 Rider 29, Energy Efficiency Plan ("Rider EEP").

87
88 Presumably, if Rider VBA allows the Company to recover its fixed costs as
89 anticipated, the Company will want to implement Rider VBA on a
90 permanent basis. If the Company does not recover its fixed costs as
91 anticipated, it is more likely than not that the Company will want to
92 increase base rates. In either scenario, a rate proceeding would occur no
93 sooner than four years in the future. Therefore, it is appropriate to
94 amortize rate case expense for the instant proceeding and the
95 unamortized portion of rate case expense from the prior proceeding over
96 four years instead of three years, as proposed by the Company.

¹ Co. Resp. to Staff DR BCJ 1.07.

97 Charitable Contributions

98 Q. Please describe Schedule 3.02, Adjustment to Charitable Contributions.

99

100 A. Schedule 3.02 presents my proposed adjustment to remove contributions
101 to the Aurora Foundation, the Salvation Army-Chicago, Chicago United
102 and The Conference Board from Nicor Gas' recoverable test year
103 expenses because they are costs that should be the responsibility of
104 shareholders, not ratepayers. My proposed adjustment also decreases
105 the projected amount of "Contributions less than \$5,000" in the test year.

106 Q. Please describe the purpose of the Company's contribution to the Aurora
107 Foundation.

108

109 A. The contribution to the Aurora Foundation is applied to the Nicor Gas
110 Scholarship Fund ("Fund"), for which the Aurora Foundation is the
111 administrator.³ The Fund provides traditional scholarships, based on
112 academic ability and financial need, and merit scholarships, based on
113 academic ability without consideration of financial need, to high school

(..continued)

² Co. Ex. 14.1, p. 135.

³ Co. Resp. to Staff DR BCJ 2.02.

114 seniors. The scholarships are available only to students who have a
115 parent employed by Nicor Gas.⁴

116 Q. Explain why you are proposing that this contribution be removed from
117 recoverable test year expenses.

118

119 A. Although the contribution to the Aurora Foundation is for an educational
120 purpose, it is not a charitable contribution that should be recovered from
121 ratepayers. Because the scholarships are available only to students who
122 have a parent employed by Nicor Gas, the only beneficiaries of this
123 "charity" are the Company's own employees. In actuality, the contribution
124 is a component of the Company's overall efforts to attract and retain a
125 qualified workforce.⁵

126 Q. Please describe the purpose of the Company's contribution to the
127 Salvation Army - Chicago.

128

129 A. The contribution to the Salvation Army - Chicago represents Nicor Gas'
130 matching contribution to the "Sharing Program," which provides financial

⁴ *Id.*

⁵ *Id.*

131 assistance to customers with their natural gas bills.⁶ The "Sharing
132 Program" is administered by the Salvation Army and funded by direct
133 contributions from Nicor Gas customers and employees, which the
134 Company matches dollar-for-dollar.⁷

135 Q. Explain why you are proposing that this contribution be removed from
136 recoverable test year expenses.

137

138 A. I am proposing that the Company's contribution to the Salvation Army –
139 Chicago be removed from the test year because the cost should be paid
140 by shareholders. By including the contribution in the test year, Nicor Gas
141 is shifting the funding of its matching contribution to ratepayers.
142 Ratepayers would pay twice for their generosity – once through the direct
143 contribution to the "Sharing Program" and again through base rates.

144 Q. Has the Commission previously excluded matching contributions from
145 operating expenses?

146

147 A. Yes. Matching contributions were disallowed in the following dockets:

148 Docket No. 93-0183 Illinois Power Company

⁶ Co. Resp. to Staff DR BCJ 2.07.

⁷ Description of Nicor Gas Sharing Program on Company website.

149 Docket No. 95-0076 Illinois-American Water Company

150 Q. If Staff's proposed adjustment is not accepted by the Commission and the
151 contribution to the Salvation Army – Chicago is allowed to remain in the
152 test year, should the amount be adjusted?

153

154 A. Yes. The Company has proposed a test year contribution of \$220,000 to
155 the Salvation Army – Chicago. The description of the program on the
156 Company's website indicates that Nicor Gas matches contributions dollar-
157 for-dollar up to \$175,000. If allowed to remain in the test year, the
158 contribution to the Salvation Army – Chicago should be adjusted
159 downward to \$175,000.

160 Q. Please explain why you are proposing that the contributions to Chicago
161 United and The Conference Board be removed from recoverable test year
162 expenses.

163

164 A. Section 9-227 of the Public Utilities Act ("PUA" or "Act") allows a utility to
165 include in its revenue requirement donations made for the public welfare
166 or for charitable scientific, religious or educational purposes. The

167 Company's contributions to Chicago United and The Conference Board
168 do not appear to fall into any of these categories.

169 Q. What type of organizations are Chicago United and The Conference
170 Board?

171

172 A. The organizations are focused on economic development. Chicago
173 United's mission is to enrich the fabric of the region by building
174 sustainable diversity in business leadership.⁸ A donation to Chicago
175 United "will enable the advancement of multiracial leadership
176 development in corporate governance and executive level management;
177 develop a pipeline of future multiracial executive leaders; and cultivate
178 multiracial business partnerships."⁹ The Conference Board creates and
179 disseminates knowledge about management and the marketplace to help
180 businesses strengthen their performance and better serve society.¹⁰ For
181 over ninety years it has "equipped the world's leading corporations with
182 practical knowledge through issues-oriented research and senior
183 executive peer-to-peer meetings."¹¹

184

⁸ Co. Sch. C-7, p. 14.

⁹ Chicago United website at www.chicago-united.org

¹⁰ Co. Sch. C-7, p. 15.

¹¹ The Conference Board website at www.conference-board.org

185 Contributing to community and economic development organizations is a
186 promotional and goodwill practice. Such contributions may demonstrate
187 good corporate citizenship, but they are not necessary in providing utility
188 service. Consequently, the ratepayers should not be burdened with the
189 expense of the Company's contributions to these community and
190 economic development organizations, and the expense should be
191 removed from the Company's revenue requirement.

192 Q. Has the Commission previously excluded contributions to community and
193 economic organizations from operating expenses?

194

195 A. Yes. Contributions to community and economic organizations were
196 disallowed in the following dockets:

197 Docket No. 03-0403 Consumers Illinois Water Company¹²

198 Docket No. 02-0690 Illinois American Water Company¹³

199 Docket No. 90-0128 Contel of Illinois¹⁴

200 Q. Please explain why you are proposing a decrease to test year
201 "Contributions less than \$5,000."

202

¹² Order, Docket No. 03-0403, April 13, 2004, pp. 18-19.

¹³ Order, Docket No. 02-0690, August 12, 2003, pp. 20-21.

203 A. The Company's projected amount of "Contributions less than \$5,000" for
204 the test year is more than the actual amount expended for the same
205 category in 2007. The Company provided an explanation for a portion of
206 the projected increase.¹⁵ My adjustment decreases "Contributions less
207 than \$5,000" for the unexplained portion of the projected increase.

208 Office Supplies and Expenses

209 Q. Please describe Schedule 3.03, Adjustment to Office Supplies and
210 Expenses.

211

212 A. Schedule 3.03 presents my proposed adjustment to test year Office
213 Supplies and Expenses to 1) remove branding expenses, 2) remove
214 contributions for economic development, and 3) reduce the projected
215 amount of training and seminar/meeting expenses.

216 Q. What are branding expenses and why should they be removed from the
217 test year?

218

(..continued)

¹⁴ Order, Docket No. 90-0128, January 16, 1991, pp. 49-50.

¹⁵ Co. Resp. to Staff DR BCJ 2.06.

219 A. Branding expenses represent costs associated with promoting and
220 maintaining a company brand.¹⁶ It is how a company gets its name before
221 the public, i.e., promotional, institutional, or goodwill advertising. For
222 example, included in branding expenses are the costs incurred for Nicor
223 Gas to be a sponsor of the Kane County Cougars, a baseball team, and
224 the Brookfield Zoo, and the cost for over ten thousand Nicor calendars.

225

226 Branding expenses should be removed from the test year because
227 Section 9-225(2) of the PUA expressly states that advertising costs of a
228 goodwill or institutional nature shall not be considered for the purpose of
229 determining rates:

230 In any general rate increase requested by any gas or electric
231 utility company under the provisions of this Act, the Commission
232 shall not consider, for the purpose of determining any rate,
233 charge or classification of costs, any direct or indirect
234 expenditures for promotional, political, institutional or goodwill
235 advertising, unless the Commission finds the advertising to be in
236 the best interest of the Consumer or authorized as provided
237 pursuant to subsection 3 of this Section.

238 Section 9-225(1)(d) of the Act defines goodwill or institutional advertising
239 as:

240 ...any advertising either on a local or national basis designed
241 primarily to bring the utility's name before the general public in
242 such a way as to improve the image of the utility or to promote
243 controversial issues for the utility or the industry.

¹⁶ Co. Resp. to Staff DR DLH 2.05(g).

244 Q. Please respond to the Company's claim that branding expense is not
245 promotional, institutional, or goodwill advertising because it includes costs
246 for programs that are in the best interest of the consumer as provided by
247 Section 9-225 of the PUA.¹⁷

248

249 A. A portion of the Company's branding expense is for programs such as
250 volunteerism by the Company's employees, an energy efficiency poster
251 contest for elementary school students, and a literacy program for
252 kindergarten through third grade students.¹⁸ However, a review of the
253 invoices associated with such programs in 2007 shows that the costs
254 include (1) costs to produce videos of the activities, (2) consultants' fees
255 for drafting media materials and conducting outreach and follow up to the
256 press, and (3) the purchase of products for distribution that include the
257 Company logo.¹⁹ Although there may be some potential benefits to
258 consumers, the Company uses the programs for public relations, i.e., to
259 put its name before the public in a positive way, thus promoting itself and
260 generating goodwill.

¹⁷ Co. Resp. to Staff DR DLH 9.06(b).

¹⁸ *Id.*

¹⁹ Co. Resp. to Staff DR DLH 9.06(c), Ex. 2.

261 Q. Has the Commission previously excluded branding expenses from Nicor
262 Gas' operating expenses?
263

264 A. Yes. In the Company's previous rate proceeding, Docket No. 04-0779,
265 the Commission found that "Nicor failed to sufficiently justify the branding
266 expenditures being borne by ratepayers. Nicor, therefore, is not entitled
267 to recovery..."²⁰

268 Q. In the Company's previous rate proceeding, Docket No. 04-0779,
269 branding expenses were recorded in Advertising Expense. How did you
270 determine that the branding expenses recorded in Office Supplies and
271 Expenses in the instant proceeding are similar in nature to the branding
272 expenses disallowed in Docket No. 04-0779?
273

274 A. I reviewed invoices for non-payroll branding expense charges for the
275 years 2006-2007, which were provided in response to Staff Data Request
276 ("DR") DLH 9.06, and determined that the costs reflected by the invoices
277 are similar in nature to the branding expenses described in the rebuttal

²⁰ Order, Docket No. 04-0779, Sept. 20, 2005, p. 38.

278 testimony of Company witness Christine L. Suppes in Docket No. 04-
279 0779.²¹

280 Q. Why are you proposing that the projected contribution for economic
281 development be removed from the Company's revenue requirement?
282

283 A. The Company states that, "Economic development efforts include
284 strategic grant making to regional and municipal economic development
285 organizations to assist them by providing rate and infrastructure
286 information for prospective businesses considering locating in the
287 territory."²² My reason for proposing that the projected contribution for
288 economic development be removed from the Company's revenue
289 requirement is the same as the reason set forth above for removing the
290 contributions to Chicago United and The Conference Board; i.e.,
291 contributing to economic development organizations is a promotional and
292 goodwill practice. Nicor Gas' contributions to community and economic
293 development organizations are not for the public welfare or for charitable
294 scientific, religious or educational purposes, as required for a recoverable
295 contribution under Section 9-227 of the PUA. The contributions are not
296 necessary in providing utility service. Consequently, the ratepayers should

²¹ Co. Ex. 23.0, pp. 9-10.

297 not be burdened with the expense of the Company contributing to these
298 community and economic development organizations. Therefore, these
299 expenses should be removed from the Company's revenue requirement.
300 As demonstrated above, the Commission has repeatedly applied this
301 policy.

302 Q. Please explain why you are proposing a reduction to the projected amount
303 of training and seminar/meeting expenses in the test year.

304 A. I am proposing a reduction because the projected amounts appear to be
305 excessive and the revenue requirement upon which rates are based
306 should reflect a reasonable amount of expense. The projected amounts
307 of training and seminar/meeting expenses in the test year are 337% and
308 461%, respectively, of the actual amounts expended in fiscal year 2007.
309 The Company's only response to my request to provide all assumptions
310 for the increase and provide all information upon which the Company
311 relied in making the determination was this statement, "The increase is
312 primarily due to expenses related to employee development, engagement,

(..continued)

²² Co. Resp. to Staff DR BCJ 7.02.

313 culture and diversity initiatives that were deferred due to required
314 budgetary reductions."²³

315 Q. Please explain the basis for your proposed adjustments to test year
316 training and seminar/meeting expenses.

317

318 A. My proposed adjustments are based on the Company's historical
319 spending pattern compared to budget for the years 2005, 2006, and 2007.
320 For each category, I calculated the percent of budget likely to be
321 expended by comparing total actual expenditures for the three-year period
322 to total planned budget expenditures for the same time period. The
323 Company's projected expenditures were multiplied by the respective
324 percent to calculate more reasonable training and seminar/meeting
325 expenses to be included in the revenue requirement.

326 Memberships and Dues

327 Q. Please describe Schedule 3.04, Adjustment to Memberships and Dues.

328

329 A. Schedule 3.04 presents my proposed adjustment to remove projected test
330 year Memberships and Dues from the Company's revenue requirement.
331 The memberships and dues are for community and economic

²³ Co. Resp. to Staff DR BCJ 7.04.

332 development organizations. Participation in such groups is a promotional
333 and goodwill practice, which, while perhaps promoting good corporate
334 citizenship and enabling employees to keep in contact with other
335 members of the business community, is not necessary in providing utility
336 service. Consequently, the ratepayers should not be burdened with the
337 expense of the Company taking part in these community organizations.
338 The costs should be removed from the Company's revenue requirement.

339 Q. Were memberships and dues for community organizations disallowed in
340 Nicor Gas' previous rate proceeding, Docket No. 04-0779?

341

342 A. Yes. The Commission accepted Staff's proposed adjustment to remove
343 the dues and memberships for certain community organizations from the
344 Company's revenue requirement.²⁴

345 Q. In addition to Docket No. 04-0779, has the Commission previously
346 excluded memberships and dues for community and economic
347 organizations from operating expenses?

348

²⁴ Order, Docket No. 04-0779, Sept. 20, 2005, p. 34.

349 A. Yes. Memberships and dues for community and economic organizations
350 were disallowed in the following dockets:

351 Docket No. 90-0169 Commonwealth Edison Company²⁵

352 Docket No. 94-0065 Commonwealth Edison Company²⁶

353 Docket No. 99-0119/99-0131 (Cons.) Central Illinois Light Company²⁷

354 Environmental Costs

355 Q. Please describe Schedule 3.05, Adjustment to Environmental Costs.

356

357 A. Schedule 3.05 presents my proposed adjustment to remove costs
358 associated with the clean up of outside mercury regulators that were
359 inadvertently included in the Company's proposed revenue requirement.²⁸

360 According to Company witness James M. Gorenz, costs of a mercury
361 inspection and repair program initiated by the Company in 2000 are not
362 being recovered from customers.²⁹

363 Q. Has Nicor Gas identified costs that were inadvertently excluded from the
364 Company's proposed revenue requirement?

365

²⁵ Order, Docket No. 90-0169, March 18, 1991, p. 36.

²⁶ Order, Docket No. 94-0065, Jan. 9, 1995, p. 40.

²⁷ Order, Docket No. 99-0119/99-0131 (Cons.), August 25, 1999, p. 35.

²⁸ Co. Resp. to Staff DR BCJ 11.10.

366 A. The Company has determined that certain costs associated with waste
367 disposal of field generated items were inadvertently excluded from the test
368 year.³⁰ However, this information was not received in time for follow up
369 before the filing of my direct testimony. If discovery indicates that an
370 adjustment is appropriate, I will address the issue in rebuttal testimony.

371 Rider 28 – Volume Balancing Adjustment ("Rider VBA")

372 Q. Please summarize your testimony regarding the Company's proposed
373 Rider VBA.

374
375 A. Although I am not opining about whether Rider VBA should be adopted,
376 my testimony provides a description of my understanding of Rider VBA as
377 presented by the Company and my proposed changes and/or
378 improvements to the rider in the event that it is adopted by the
379 Commission.

380 Q. Describe your understanding of Rider VBA.

381

382 A. Proposed Rider VBA provides a means, independent of customer gas
383 consumption, for the Company to recover the following:

(..continued)

²⁹ Co. Ex. 11.0, p. 19.

³⁰ Co. Resp. to Staff DR BCJ 11.10.

- 384 a) that portion of fixed costs currently recovered through the
385 volumetric portion of delivery service charges on a monthly basis;
386 b) any over/under-recovery of the fixed cost portion of the volumetric
387 charges on a per customer basis; and
388 c) any Commission ordered recovery determined from an annual true-
389 up (reconciliation) proceeding.

390 Q. How does Nicor Gas' Rider VBA compare to Rider VBA approved by the
391 Commission in the Peoples Gas Light and Coke Company ("Peoples")
392 and North Shore Gas Company ("North Shore") rate cases, Docket Nos.
393 07-0241/0242 (Cons.)?

394

395 A. Except for the amortization period for the reconciliation adjustment, Nicor
396 Gas' Rider VBA is similar in all respects to Rider VBA approved by the
397 Commission in Docket Nos. 07-0241/0242 (Cons.). Whereas the
398 Peoples/North Shore Rider VBA amortizes the reconciliation adjustment
399 over a ten-month period, Nicor Gas proposes to amortize the
400 reconciliation adjustment over a nine-month period.

401 Q. Are you proposing any changes to the Nicor Gas Rider VBA?
402

A. Yes. If the Commission approves Rider VBA as filed, I propose the following changes:

1. Correct the length of the reconciliation period included in the definition of "Previous Reconciliation Period."

Section A – Definitions

Previous Reconciliation Period shall mean the ~~ten-month~~ nine-month reconciliation period that ended as of the most recent Fiscal Year.

2. Replace the formula for RA_1 to reflect a revised formula in the Peoples/North Shore Riders.

Section B – Determination of Adjustment

RA_1 shall be represented by the following formula:

$$\text{RCM} - ((\text{AM}/\text{AC}) \times \text{PFC} \times \text{RCC}) - \text{VBAR}$$

$$\text{RCM} - (\text{AM}/\text{AC} \times \text{RCC}) \times \text{PFC} - \text{VBAR}$$

3. Enhance language regarding an annual reconciliation process removed from Section D – Terms and Conditions and place it in Section C – Reports and Reconciliations.

Section C – Reports and Reconciliations.

The Company shall file with the Commission on or before the twentieth (20th) day of each Filing Month an information sheet that specifies the adjustments to be effective under this rider for the Effective Month. The Company shall file any corrections from a timely filed information sheet on or before the last day of the Filing Month. Any other filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201(a) of the Public Utilities Act [220 ILCS 5/9-201(a)].

431 The Company shall file with the Commission annually, no
432 later than March 31, a statement of the Reconciliation
433 Adjustment components RA₁ and RA₂ to be applicable for
434 the Upcoming Reconciliation Period. At this same time, the
435 Company shall also file a petition with the Commission
436 seeking initiation of a docketed annual reconciliation
437 process. The petition shall be supported by testimony as to
438 the accuracy of the reconciliation statement. Supporting
439 invoices and any additional supporting documentation or
440 workpapers affecting the information presented in the
441 Company's reconciliation shall be provided to the
442 Commission's Accounting Staff at the time of the filing of the
443 reconciliation statement, petition, and testimony. The
444 ordered adjustment from such proceeding (Factor O) shall
445 be reflected in the Reconciliation Adjustment over a
446 succeeding Reconciliation Period.

447 **Section D – Terms and Conditions.**

448 Subject to Terms and Conditions of Service and Riders to
449 Schedule of Rates for Gas Service which are applicable to
450 this rider. ~~At this same time, the Company shall also file a~~
451 ~~petition with the Commission seeking initiation of an annual~~
452 ~~reconciliation to determine the accuracy of the statement.~~
453 ~~The reconciling amount from such proceeding (Factor O)~~
454 ~~shall be recovered in the manner determined by the~~
455 ~~Commission in the annual reconciliation proceeding.~~

456 Q. Are you proposing any other changes to the Nicor Gas Rider VBA?

457

458 A. Yes, I am proposing language 1) to require a report on the effect of Rider
459 VBA on the Company's rate of return and 2) to enhance the effectiveness
460 of the annual internal audit as a tool for monitoring Rider VBA.

461 Q. Please explain your proposed language regarding a report on the effect of

Rider VBA on the Company's rate of return.

A. I propose to insert language into proposed Rider VBA, so that it reads as follows:

Section C – Reports and Reconciliations

The Company shall file with the Commission on or before the twentieth (20th) day of each Filing Month an information sheet that specifies the adjustments to be effective under this rider for the Effective Month. The Company shall file any corrections from a timely filed information sheet on or before the last day of the Filing Month. Any other filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201(a) of the Public Utilities Act [220 ILCS 5/9-201(a)].

The Company shall file with the Commission annually, no later than March 31, a statement of the Reconciliation Adjustment components RA_1 and RA_2 to be applicable for the Upcoming Reconciliation Period. As part of the filing, the Company shall provide the annual earned rate of return for the most recent Fiscal Year and an analysis of the impact of VBA revenues collected during the most recent Fiscal Year on that reported earned return. At this same time, the Company shall also file a petition with the Commission seeking initiation of a docketed annual reconciliation process. The petition shall be supported by testimony as to the accuracy of the reconciliation statement. Supporting invoices and any additional supporting documentation or workpapers affecting the information presented in the Company's reconciliation shall be provided to the Commission's Accounting Staff at the time of the filing of the reconciliation statement, petition, and testimony. The ordered adjustment from such proceeding (Factor O) shall be reflected in the Reconciliation Adjustment over a succeeding Reconciliation Period.

In its Order in Docket Nos. 07-0241/07-0242 Consolidated, the

498 Commission directed Staff to provide the Commissioners an annual report
499 on Peoples/North Shore's rates of return and the effect of Rider VBA on
500 the returns. If the Commission decides to adopt Rider VBA for Nicor Gas
501 and similarly requires an annual report of Nicor Gas' earned rate of return
502 and the effect of Rider VBA on that return, I propose that the Commission
503 require the Company to separately provide in its annual reconciliation
504 filing the annual earned rate of return and an analysis of the impact of
505 VBA revenues collected for that period on that reported earned return.
506 This provision would ensure that the Commission would be able to timely
507 receive and review such earned rate of return information.

508 Q. Please explain your proposed language regarding the annual internal
509 audit feature of Rider VBA.

510

511 A. As filed, proposed Rider VBA anticipates an annual internal audit, but
512 there are no requirements regarding what will be tested in the audit. In
513 order for the annual internal audit to be an effective tool to the Staff and
514 the Commission in monitoring Rider VBA, it is important that the audit
515 include certain specified tests of the rate mechanism. Therefore, I
516 propose the following language changes to the Audit section of Rider
517 VBA:

518 **Section E – Audit**

519 ~~The Company shall file annually with the Manager of the~~
520 ~~Accounting Department of the Commission's Financial~~
521 ~~Analysis Division, no later than August 1, an internal audit~~
522 ~~report that determines whether or not the VBA and~~
523 ~~information provided in Section C have been calculated in~~
524 ~~accordance with this rider.~~

525
526 The Company shall annually conduct an internal audit of the
527 operation of the Rider. The internal audit shall include at least
528 the following tests: 1) test that the Actual Margin per customer
529 for each applicable Service Classification that exceeds or falls
530 short of any previously established Rate Case Margin per
531 customer is being correctly reflected in the calculations; 2)
532 test that costs recovered through Rider VBA are not being
533 collected through other approved tariffs; 3) test that Rider
534 VBA adjustments are being properly billed to customers; 4)
535 test that Rider VBA revenues are being recorded in
536 appropriate accounts; and 5) test that Rider VBA charges or
537 credits are being identified and recorded properly for
538 calculating rates and reconciliation. The above list of tests
539 does not limit the scope of the audit.

540
541 The Company shall submit the audit report to the Manager of
542 the Accounting Department of the Commission's Financial
543 Analysis Division no later than August 1 each year, beginning
544 in 2010. Such report shall be verified by an officer of the
545 Company.

546 Q. Is Rider VBA a partial or a full decoupling mechanism?

547
548 A. Rider VBA, as proposed, is a partial decoupling mechanism in that it
549 tracks changes in usage on a per customer basis. A decline in gas
550 consumption that results in a decline in the revenue margin per customer,
551 as compared to the revenue margin per customer approved in the instant
552 proceeding, will result in a positive VBA rate; i.e., a charge to customers.

553 Conversely, an increase in gas consumption that results in an increase in
554 the revenue margin per customer, as compared to the revenue margin per
555 customer approved in the instant proceeding, will result in a negative VBA
556 rate, i.e., a refund to customers. Because the revenue margin per
557 customer approved in the instant proceeding is based on a projected level
558 of customers, an increase in the actual number of customers could result
559 in the Company recovering more for fixed costs than the amount in the
560 approved revenue requirement.

561 Q. How would Rider VBA function if it were a full decoupling mechanism?

562

563 A. Rider VBA could be structured to ensure that the Company recovers the
564 fixed operating costs inherent in the volumetric charges that customers
565 pay only on the actual volumes of gas delivered to them. If Rider VBA
566 were structured as a full decoupling mechanism, the VBA rate would be
567 determined on the fixed cost portion of the volumetric charges on a total
568 revenue requirement basis, as opposed to a per customer basis as
569 described above. If actual revenue billed for the fixed costs was less than
570 the amount included in the revenue requirement approved by the
571 Commission, the VBA rate would be positive, resulting in a charge to
572 customers. If actual revenue billed for the fixed costs exceeded the

573 amount included in the approved revenue requirement, the VBA rate
574 would be negative, resulting in a refund to customers. Under full
575 decoupling, an increase in the actual number of customers would not
576 result in the Company potentially recovering more for fixed costs than the
577 amount in the approved revenue requirement.

578 Q. What changes are needed for Rider VBA to function as a full decoupling
579 mechanism?

580

581 A. For Rider VBA to function as a full decoupling mechanism, the formulas
582 for the Effective Component and the RA₁ component of the Reconciliation
583 Adjustment should be modified as follows:

584 (1) **Effective Component** – The adjustment, determined for each Service
585 Classification, to be billed for the Effective Month is represented by
586 the following formula:

587

588 ~~$$\left[\frac{RCM}{RCC} - \frac{AM}{AC} \right] \times PFC \times RCC / T \times 100$$~~

589
$$\frac{(RCM - AM) \times PFC}{T} \times 100$$

590

591

Where:

592

RCM represents the Rate Case Margin for the Reconciliation Month.

593

~~RCC represents the number of Rate Case Customers for the
Reconciliation Month.~~

594

595

AM represents the Actual Margin for the Reconciliation Month.

596

~~AC represents the number of Actual Customers for the Reconciliation
Month.~~

597

598

T represents the forecast Factor T for the Effective Month.

599

PFC represents the percentage of the Company's costs that are fixed
as determined and authorized by the Commission in the
Company's most recent rate proceeding.

600

601

602

(2) Reconciliation Adjustment

RA₁ shall be represented by the following formula:

$$\cancel{(RCM - (AM/AC \times RCC)) \times PFC - VBAR}^{31}$$

$$\underline{(RCM - AM) \times PFC - VBAR}$$

Where:

RCM represents the Rate Case Margin for the Fiscal Year.

AM represents the Actual Margin for the Fiscal Year.

~~AC represents the average number of Actual Customers for the fiscal year.~~

~~RCC represents the average number of Rate Case Customers for the Fiscal Year.~~

VBAR represents the sum of the actual monthly revenues arising from the application of the Effective Component in Section B (1) for the Fiscal Year.

O represents the Ordered adjustment, in dollars (\$), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section C.

PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate Proceeding.

Q. Are you making a recommendation regarding which mechanism – Rider VBA partial decoupling or Rider VBA full decoupling - is appropriate for the recovery of Nicor Gas' fixed delivery service costs?

A. No, I am not making a recommendation regarding which mechanism is appropriate for the recovery of the Company's fixed delivery service costs. Instead, I am providing the Commission another alternative it may wish to

consider should it decide to approve another rider pilot program. It is evident from the Commission's decision to approve a Rider VBA (structured as a partial decoupling mechanism) in Docket Nos. 07-0242/07-0242 (Cons.) that it is willing to consider alternatives to the traditional method of recovering a portion of fixed costs through the volume based portion of a customer's bill. It is also evident from the fact that Rider VBA was approved as a pilot program that the Commission is interested in evaluating the method before it is given permanent approval. If, in the instant proceeding, the Commission were to approve recovery of fixed delivery service costs through a pilot program different from the one approved in Docket Nos. 07-0242/07-0242 (Cons.), there would be more information available with which to evaluate which is the better method of recovering a utility's fixed costs.

Rider 29 – Energy Efficiency Plan ("Rider EEP")

Q. Please summarize your testimony regarding the Company's proposed Rider EEP.

A. For various policy reasons explained by Staff witness David Brightwell in Staff Exhibit 13.0, Staff does not recommend that this rider be approved

(..continued)

³¹ Revised formula discussed at page 23.

651 by the Commission. However, if the Commission determines it is
652 appropriate for the Company to recover funds necessary to implement
653 various energy conservation and efficiency programs through a rider
654 mechanism, my testimony presents recommended changes and/or
655 improvements to Rider EEP.

656 Q. Please describe the recommended changes and/or improvements to
657 Rider EEP if the Commission approves the rider.

658

659 A. My recommendations are 1) to change the filing date of the Effective
660 Component, 2) to correct the wording of the definition of "Carry Over
661 Percentage," 3) to correct the formula for the Effective Component, 4) to
662 enhance the description of the RA₂ component of the Reconciliation
663 Adjustment formula, 5) to revise the Reconciliation Adjustment formula to
664 allow for an Ordered adjustment, 6) to correct the date of the first
665 Reconciliation Period, and 7) to enhance the effectiveness of the annual
666 internal audit as a tool for monitoring Rider EEP.

667 Q. Why are you recommending a change to the filing date of the Effective
668 Component?

669

670 A. Rider EEP states that, "...the Company shall file the Effective Component
671 with the Commission no later than December 31, and it shall be in effect
672 for the 12 month period commencing the following January 1." I propose
673 that the filing date be changed to December 1 in order to allow time for
674 Staff to review the filing before it takes effect on January 1. Per the
675 Company's response to Staff DR BCJ 5.01, the Company indicated it
676 would agree to a December 1 filing date.

677 Q. Why are you recommending a correction to the wording of the definition of
678 Carry Over Percentage?

679

680 A. Nicor Gas' Rider EEP is modeled after Rider EEP approved in Docket
681 Nos. 07-0241/07-0242 (Cons.) for Peoples and North Shore, which
682 identifies the period of time an Effective Component is in effect as a
683 Program Period. Nicor Gas has chosen to identify the same period of
684 time as a Plan Period. The definition of Carry Over Percentage makes
685 reference to a Program Period, which should be corrected to read Plan
686 Period.

687

Section A – Definitions

688

689

690

691

Carry Over PercentageThe Carry Over Percentage shall be
75% in the second Plan Period, 50% in the third Plan Period, 25%
in the fourth Plan Period and 10% in each subsequent Plan Period.

692 Q. Why are you recommending a correction to the formula for the Effective
693 Component?

694

695 A. As filed, the formula to calculate the Effective Component for each month
696 during the Plan Period will accommodate only a twelve-month Plan
697 Period. Because the first Plan Period will be less than twelve months, I
698 propose that the formula be changed to allow for a Plan Period that is not
699 twelve months.

700 **Section B – Determination of Adjustment**
701 **(1) Effective Component**

702 ~~$(APB + CSA) / CUST / 12 \times 100$~~

703 $(APB + CSA) / CUST / MONTHS \times 100$

704 Where:

705 APB represents APB for the Plan Period

706 CSA represents CSA for the Plan Period

707 CUST represents CUST for the Plan Period

708 MONTHS represents the number of months in the Plan Period

709 Per the Company's response to Staff DR BCJ 5.05, the Company
710 indicated it would agree with the change.

711 Q. Why are you recommending an enhancement to the description of the
712 RA₂ component of the Reconciliation Adjustment formula?

713

714 A. It is not clear from the description of the RA_2 component how it would be
715 calculated. To enhance clarity, I recommend that the formula for
716 calculating the RA_2 component be included in its description.

717 **Section B – Determination of Adjustment**
718 **(2) Reconciliation Adjustment**

719 Where:

720 RA_2 represents the reconciliation of RA_1 ($RA_1 - \text{(filed prior year)} -$
721 $RA_1 - \text{(billed prior year)}$) for the Previous Plan Period, where a
722 $(+RA_2)$ equals an amount due the Company and a
723 $(-RA_2)$ equals an amount due the customer.

724 Q. Why are you recommending a revision to the Reconciliation Adjustment
725 formula to allow for a Commission ordered adjustment?
726

727 A. In the section of Rider EEP regarding the Reconciliation Adjustment, the
728 Company defines a factor O as an adjustment ordered by the
729 Commission that is to be refunded to or collected from customers as a
730 result of the annual reconciliation process. However, there is no factor O
731 component in the formula for the Reconciliation Adjustment. I
732 recommend that the formula for the Reconciliation Adjustment be revised
733 to properly reflect an ordered adjustment by the Commission.

734 **Section B – Determination of Adjustment**
735 **(2) Reconciliation Adjustment**

736
$$[(COB1-COB2)+[(RA1+RA2+O)x(1+i)]]/CUST/8 \times 100$$

737 Q. Why are you recommending a correction to the date of the first
738 Reconciliation Period?

739

740 A. Rider EEP identifies the first Reconciliation Period as the eight-month
741 period commencing May 1, 2009. The correct date is May 1, 2010. The
742 Reconciliation Period is defined as the time during which the
743 Reconciliation Adjustment is recovered. If the first Reconciliation
744 Adjustment to be calculated is for the Plan Period ending December 31,
745 2009, the first Reconciliation Period must be the period beginning May 1,
746 2010. Per the Company's supplemental response to Staff DR BCJ 5.07,
747 the Company indicated it would agree to the date change.

748 Q. Please explain your proposed enhancement to the annual internal audit
749 feature of Rider EEP.

750

751 A. As filed, proposed Rider EEP anticipates an annual internal audit, but
752 there are no requirements regarding what will be tested in the audit. In
753 order for the annual internal audit to be an effective tool to the Staff and
754 the Commission in monitoring Rider EEP, it is important that the audit

include certain specified tests of the rate mechanism. Therefore, I propose the following language changes to the Audit section of Rider EEP:

Section E – Audit

~~The Company shall file annually with the Manager of the Accounting Department of the Commission's Financial Analysis Division, no later than August 1, an internal audit report that determines whether or not the EEP and information provided in Section C have been calculated in accordance with this Tariff.~~

The Company shall annually conduct an internal audit of the operation of the Rider. The internal audit shall include at least the following tests: 1) test that costs being recovered through Rider EEP are not being recovered through other approved tariffs; 2) test that Rider EEP adjustments are being properly billed to customers; 3) test that Rider EEP revenues are being recorded in appropriate accounts; 4) test that Rider EEP charges or credits are being identified and recorded properly for calculating rates and reconciliation; and 5) test that the costs associated with the Company's responsibility as Fiscal Agent for the EEP are being identified and recorded in appropriate accounts. The above list of tests does not limit the scope of the audit.

The Company shall submit the audit report to the Manager of the Accounting Department of the Commission's Financial Analysis Division no later than August 1 each year, beginning in 2010. Such report shall be verified by an officer of the Company.

Conclusion

Q. Does this question end your prepared direct testimony?

788 A. Yes.

VERIFICATION

I, Burma C. Jones, being first duly sworn, depose and state that I am an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission; that I sponsor the foregoing Direct Testimony of Burma C. Jones; that I have personal knowledge of the information stated in the foregoing Direct Testimony; and that such information is true and correct to the best of my knowledge, information and belief.

Burma C. Jones

Illinois Commerce Commission

Subscribed and sworn to before me
this 27th day of August, 2008.

Lisa Bowman
Notary Public



Northern Illinois Gas Company
 Adjustment to Rate Case Expense
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No. (A)	Description (B)	Rate Case Expense Per Staff (C)	Rate Case Expense Per Company (D)	Rate Case Expense Adjust. (C-D) (E)
1	Consultants	\$ 1,031	\$ 1,031	
2	Legal Fees	2,800	2,800	
3	Other Expense	510	510	
4	Unamortized Prior Rate Case Expense	2,011	2,123	
5		\$ 6,352	\$ 6,464	
6				
7	Amortization Period in Years	4	3	
8				
9	Amortization Expense Per Year (Line 5/Line 7)	\$ 1,588	\$ 2,155	\$ (567)

Source:

Col. C&D, Lines 1-3 Company Schedule C-10.

Col. D, Line 4 Company Schedule C-2.2.

Col. C, Line 4 \$2,123 Unamortized rate case expense balance at 12/31/08
 - 112 Amortization for Jan., Feb., Mar. 2009 (\$447 annual amort./12 x 3)
\$2,011 Unamortized rate case expense balance at 3/31/09

Northern Illinois Gas Company
 Adjustment to Charitable Contributions
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No. (A)	Description (B)	Amount (C)
1	Charitable Contributions per Company	\$ 1,486
2	Deduct:	
3	Aurora Foundation	\$ (100)
4	Chicago United	(25)
5	Salvation Army - Chicago	(220)
6	The Conference Board	(6)
7	Contributions less than \$5,000	(53)
8	Charitable Contributions per Staff	<u>\$ 1,082</u>
9		
10	Adjustment to A&G Expense (line 8 - line 1)	<u>\$ (404)</u>

Source:

Lines 1 - 6 Company Schedule C-7, pp. 14 - 16.
 Line 7 ICC Staff Ex. 3.0, Schedule 3.02, p. 2, line 5.

Northern Illinois Gas Company
 Adjustment to Charitable Contributions
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No. (A)	Description (B)	Amount (C)
1	Total contributions less than \$5,000 projected for test year	\$ 477
2	Total contributions less than \$5,000 expended in 2007	214
3	Projected increase (line 1 - line 2)	\$ 263
4	Amount of projected increase explained	210
5	Unexplained amount of projected increase (line 3 - line 4)	<u>53</u>

Source:

- Line 1 Company Schedule C-7, p. 16.
- Line 2 Company Schedule C-7, p. 10.
- Line 4 Company response to Staff DR BCJ 2.06.

Northern Illinois Gas Company
 Adjustment to Office Supplies and Expenses
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No. (A)	Description (B)	Per		Adjustment	
		Company (C)	Staff (D)	(D) - (C)	(E)
1	Branding	\$ 264	\$ -	\$ (264)	
2	Contribution for Economic Development	92	-	(92)	
3	Training	566	255	(311)	
4	Seminars/Meetings	118	25	(93)	
5					
6	Total	\$ 1,040	\$ 279	\$ (761)	

Source:

- Line 1 Exhibit 3 of Company response to Staff DR DLH 2.05.
- Line 2 Company response to Staff DR BCJ 7.02.
- Line 3, Col. C Company response to Staff DR BCJ 3.08.
- Line 3, Col. D ICC Staff Ex. 3.0, Schedule 3.02, p. 2, col. G.
- Line 4, Col. C Company response to Staff DR BCJ 3.08.
- Line 4, Col. D ICC Staff Ex. 3.0, Schedule 3.02, p. 2, col. G.

Northern Illinois Gas Company
 Adjustment to Office Supplies and Expenses
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No. (A)	Description (B)	Actual Expended (C)	Budget (D)	% Expended (C) / (D) (E)	Test Year Projected (F)	Per Staff (E) x (F) (G)
1	Training					
2	2005	\$ 152	\$ 338			
3	2006	101	231			
4	2007	129	280			
5	3-Year Totals	<u>\$ 382</u>	<u>\$ 849</u>	45%	<u>\$ 566</u>	<u>\$ 255</u>
6						
7	Seminars/Meeting Expenses					
8	2005	\$ 59	\$ 315			
9	2006	27	95			
10	2007	21	105			
11	3-Year Totals	<u>\$ 107</u>	<u>\$ 515</u>	21%	<u>\$ 118</u>	<u>\$ 25</u>

Source:
 Col. C & D Company response to Staff DR BCJ 7.05.
 Col. F Company response to Staff DR BCJ 3.08.

Northern Illinois Gas Company
 Adjustment to Memberships and Dues
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No. (A)	Description (B)	Per Company (C)	Per Staff (D)	Adjustment (D) - (C) (E)
1	Chicago Southland Chamber of Commerce	\$ 8	\$ -	\$ (8)
2	Downers Grove Chamber of Commerce	2	-	(2)
3	Evanston Chamber of commerce	1	-	(1)
4	Illinois Fire Chiefs	3	-	(3)
5	Kankakee River Valley Chamber of Commerce	1	-	(1)
6	Matteson Area Chamber of Commerce	3	-	(3)
7	McLean County Chamber of Commerce	2	-	(2)
8	Metropolitan Mayors Caucus	1	-	(1)
9	Naperville Area Chamber of Commerce	7	-	(7)
10	Rockford Area Chamber of Commerce	1	-	(1)
11	South Suburban Mayors and Managers Association	2	-	(2)
12	Southwest Conference of Mayors	2	-	(2)
13	Memberships under \$1,000	47	-	(47)
14	Commercial Club Foundation	40	-	(40)
15	Chicagoland Chamber of Commerce	9	-	(9)
16				
17	Total	\$ 128	\$ -	\$ (128)

Source:

Lines 1 - 13 Company Schedule C-6, pp. 7-8.
 Lines 14 - 15 Company response to Staff DR BCJ 6.01.

Northern Illinois Gas Company
 Adjustment to Environmental Costs
 For the Test Year Ending December 31, 2009
 (In Thousands)

Line No. (A)	Description (B)	Amount (C)
1	Mercury related costs per Staff	\$ -
2	Mercury related costs per Company	392
3		
4	Adjustment to Environmental Costs (line 1 - line 2)	\$ (392)

Source:
 Line 2

Company response to Staff DR BCJ 11.10.